Diesel Electric Hybrid Bus

Transit responds to emergencies

U-Pass Launched in Kamloops

New Trail Garage

BC Transit Annual Report 2004

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BC Transit

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Her Honour

The Honourable Iona Campagnolo
Lieutenant-Governor of the
Province of British Columbia

MAY IT PLEASE
YOUR HONOUR,

I respectfully submit the
Annual Report of BC Transit
for the fiscal year ended
March 31, 2004.

Kevin Falcon
Minister of Transportation and
Minister responsible for BC Transit

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BC TRANSIT ANNUAL REPORT

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ORGANIZATIONAL OVERVIEW

New Kamloops Transit Exchange

BC TRANSIT IS THE PROVINCIAL CROWN AGENCY CHARGED WITH COORDINATING THE DELIVERY OF PUBLIC TRANSPORTATION THROUGHOUT BRITISH COLUMBIA OUTSIDE GREATER VANCOUVER. IN PARTNERSHIP WITH LOCAL GOVERNMENT, THE CORPORATION'S MANDATE INCLUDES PLANNING, FUNDING, MARKETING, AND CONTRACTING FOR THE OPERATIONS OF TRANSIT SERVICES. ACCORDING TO THE BRITISH COLUMBIA TRANSIT ACT (SECTION 3.1) THE CORPORATION IS TO:

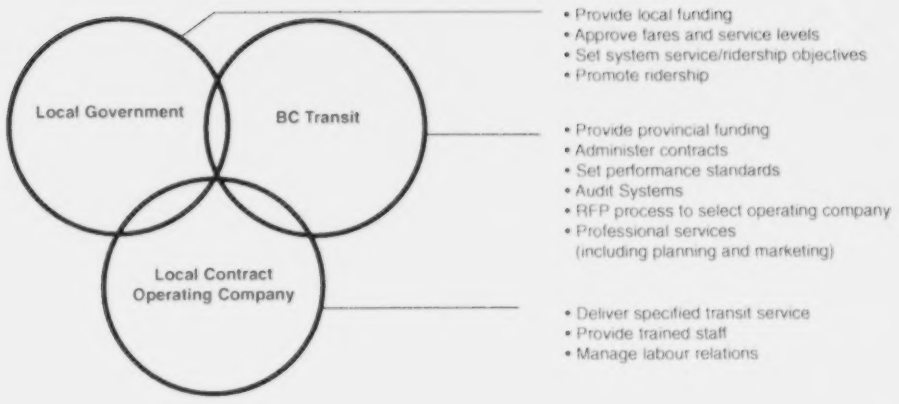
"... plan, acquire, construct or cause to be constructed public passenger transportation systems and rail systems that support regional growth strategies, official community plans, and the economic development of transit service areas", [and] "to provide for the maintenance and operation of those systems."

The present program scope is as follows:

- 50 local government partners and the VictoriaRegional Transit Commission
- 19 private sector operating companies and 14 non profit agencies contracted to provide service
- 37.5 million passengers carried annually
- 1.6 million B.C. residents served with public transit
- 71 transit systems
- fleet of 700 buses, minibuses and vans
- $123.0 million 2004/05 budget, with a provincial contribution of $45.5 million.

Working in a framework of provincial/local government/private partnerships, BC Transit benefits from a strong component of local government decision-making and private sector expertise. Victoria is the only location where BC Transit directly operates the conventional transit service. In four locations (Nanaimo, Nelson, Powell River and the Sunshine Coast).the municipality operates the service. Elsewhere, private sector companies or non-profit societies deliver services under contract to BC Transit and the local government funding partner.

Three types of transit ensure services are tailored to local markets and community needs. **Conventional transit** serves the general population in urban settings using mid-sized, large or double deck buses - mostly fully accessible, low-floor - with fixed routes and fixed schedules. Recent conventional transit innovations have ranged from Community Bus to Bus Rapid Transit. **Custom transit** serves those who cannot use conventional transit because of a disability, using vans and minibuses for dial-a-ride, door-to-door handyDART service, and through contracted Taxi Supplement and Taxi Saver (discounted coupon) programs. In small town, rural and suburban areas **Paratransit** offers flexible routing and schedules for passengers using minibuses, taxis and vans.


Local Government
BC Transit
Local Contract Operating Company
• Provide local funding
• Approve fares and service levels
• Set system service/ridership objectives
• Promote ridership
• Provide provincial funding
• Administer contracts
• Set performance standards
• Audit Systems
• RFP process to select operating company
• Professional services (including planning and marketing)
• Deliver specified transit service
• Provide trained staff
• Manage labour relations

BC Transit's Public-Private Partnership

In recognition of the pivotal role public transportation plays in sustaining vibrant, healthy communities, BC Transit's **vision** is for the:

> Development of transit services, in partnership with each community, to provide essential mobility and travel choice for all residents, where costs of traffic congestion are reduced, air quality and associated health benefits enhanced, more compact and efficient urban development supported and costly new roadway construction deferred.

BC Transit's **mission** statement integrates the Corporation's purpose, products and client base:

> To excel in the provision of safe, reliable, cost-efficient and market-focused public transportation systems that support the social, economic and environmental goals of the customers and communities served.

BC Transit strives to ensure that the wide-ranging benefits of public transportation - access to jobs, education and health care; reducing transportation infrastructure and traffic congestion costs; contributing to improved air quality; and enhancing community and regional development - are realized to the fullest extent possible. BC Transit manages within the governance framework prescribed in the BC Transit Act and is guided by the following core values:

Joint Provincial and Local Government Representation on the Board of Directors

The Corporation is governed by a seven-member Board of Directors appointed by the province according to the BC Transit Act. The Act requires four of the Board members to be municipally elected representatives. The Chair reports to a provincial cabinet minister.

A Strong Commitment to Partnerships

BC Transit is committed to building partnerships to meet the transit needs of British Columbians. The year 2004 marks the 25th anniversary of British Columbia's innovative transit structure involving BC Transit, local government and private operating companies. Each party brings expertise to the public-private partnership to deliver effective and efficient transit service. This arrangement is being extended as BC Transit invites others, including major employers, universities and colleges, school districts, and First Nations, to participate financially and operationally in local transit partnerships.

Transparent Local Decision-Making

The local partners in the transit program, including regional districts, municipalities and the Victoria Regional Transit Commission, establish bus routes and set service levels, and raise the local share of the annual budget for transit through local taxes and fares. The partners also approve their local share of the annual budget each year in open Council / Board / Commission sessions, and recommend approval of the annual budget to the BC Transit Board of Directors.

Other Core Values

- ***Ensuring safety and security*** for customers, staff and the public
- ***Innovation*** in planning, fleet procurement, service delivery, customer service and administration
- ***A market focus*** to maximize service convenience and appeal to transit riders
- ***Sound financial practices***, and a competitive procurement process to ensure the highest value is received for dollars spent
- ***Environmental stewardship*** through responsible purchasing practices and facilities management, as well as support for community agencies that encourage environmentally responsible transportation.

MESSAGE FROM THE CHAIR

The 2003/04 fiscal year presented major challenges for the BC Transit Board, staff and our many municipal and contract service partners.

With confirmation of core service funding from government, and a one-time supplementary contribution to assist in maintaining priority municipal services, the immediate challenge faced was the need to deal with cost increases in areas such as fuel, insurance and vehicle maintenance far exceeding budget targets and the general rate of inflation.

A number of key initiatives were broadened, including strategic purchasing, amendment to the Request for Proposal (RFP) process to enhance the competitiveness of contracting for service, and increased use of alternative, lower cost service delivery methods. As a result of these steps a significant portion of the increased costs were offset. These measures, in combination with reduction or re-allocation of low performing services - and the provision of a flex-funding option for local governments choosing to increase their share of funding to enhance their local transit service - ensured that core services were maintained in 2003/04.

Resources were more effectively targeted and new markets developed through several initiatives. With rationalization of service levels to match resource availability, the number of service hours delivered in 2003/04 declined by 1.6%, but more than 300,000 additional riders were carried.

Partnerships with a number of third parties were developed to promote and/or fund transit services. Support was provided by First Nations, community organizations and major destination resorts. BC Transit staff worked with a number of school districts to coordinate transit services, while municipal partners adopted attractive tariff arrangements to encourage student travel by transit, and some school districts were able to reduce their student transportation services significantly and re-allocate resources to their educational priorities.

During the course of the year, members of the Board met with dozens of councils, regional district board members and other local government stakeholders to hear their concerns and descriptions of local transportation priorities. We were able, in turn, to explain the challenges faced by the Board, the steps being taken to address the extraordinary cost pressures and the new partnerships formed. This improved dialogue and coordination of effort means transit program resources are more effectively utilized. These discussions also supported the establishment of flex funding arrangements in a number of locations as most parties viewed this option as a useful part of the larger set of tools to maintain core services and enhance the performance and community benefits of transit.

Through UBCM sessions and tours by the Board, there was also a growing appreciation of the need to find the means to extend transit services to more than a half dozen small towns and rural areas currently without any organized public transport. These are communities where an aging population, the local economy and other circumstances have combined to make regular, reliable transport linkages to larger regional centres a high priority.

The Board identified this issue as one of its priorities in the last fiscal year. With limited resources and a commitment to maintain core services for all existing municipal partners, the option of re-allocating resources from the existing base funding to establish services in new centres was not viewed as appropriate. Efforts to find an approach through a combination of flex funding, innovative local support and new revenue sources represent a continuing commitment of the Board.

Major events during the year provided an opportunity to test BC Transit's responsiveness to major disasters. Transit systems in the Kelowna and Kamloops regions were called upon to respond to the firestorm in the summer of 2003 with little or no warning. Local transit fleets were used to evacuate communities, transport fire crews and their equipment, and provide escorted tours for media, public officials and others into areas under threat. The response of local transit service providers and the support staff at BC Transit earned high praise. Floods in the Squamish area later in the fall also required transit services to support emergency and public works crews and community transport needs.

BC Transit's key role in support of the development of the local transportation plan for spectators and volunteers for the Whistler component of the successful 2010 Olympic and Paralympic Games bid was very gratifying and BC Transit staff will continue to support the development of detailed fleet and Whistler local area transport plans as the process moves to the next phase.

BC Transit's overall achievements and results for 2003/04 were considerable given the many issues faced. Transit markets are continuing to grow and our services have become even more central to the community plans of our local government partners and other stakeholders.

On behalf of the Board of Directors, I wish to acknowledge the excellent contribution to our successes of all BC Transit staff, municipal partners and our contract service providers.

Greg Slocombe **Chair**

MESSAGE FROM THE PRESIDENT

BC Transit staff efforts for the 2003/04 fiscal year continued to focus on controlling costs, targeting the use of resources and improving the efficiency of service delivery. The cost pressures in areas such as fuel, insurance and parts were extreme. Price volatility for items such as these is a major challenge for any transportation service provider.

A number of key initiatives were advanced during the year to address these pressures. By year- end the bulk of the effort to implement new financial management, Human Resources, and maintenance work management systems in Victoria was complete. These new tools replace obsolete systems dating back 12 or more years, and provide improved capability for budget tracking, reporting and decision-making.

New collective agreements were signed with the unions representing most of BC Transit's Victoria workforce, without disruption and within government's compensation guidelines. Similar results were achieved by local contract service providers in a number of communities. No service hours were lost due to labour disruption in Victoria or the Municipal Systems during this fiscal year. In a separate process, the company and union representatives were able to reach agreement on the terms for operation of Community Bus services by BC Transit. The negotiated wages, benefits and associated work rules will provide a service which can be delivered at a cost below that of conventional bus operations, and competitive with private sector firms providing this type of service. Plans to implement the first phase of Community Bus operations in low density market areas in the Victoria Region were well advanced by year end.

In order to control fuel cost, BC Transit worked with the federal government and other transit agencies to develop the "Fuel Sense" (Smart Driver for Transit) training program for commercial fleets. By year-end, all BC Transit operators in Victoria had completed the full-day training session, and Victoria was one of the first transit systems in Canada to put the program in place. "Fuel Sense" focuses on fuel efficiency and bus handling, and is designed to reduce fuel consumption, engine emissions and provide a smoother ride. At a time of extreme price volatility in international energy markets, this program will contribute to cost containment in an area of high budget risk. By year-end, arrangements were in place to extend this program to a number of the larger conventional bus operations in the Municipal Systems Program.

Overall cost containment and service delivery initiatives in the past four years have been successful. As noted on Table 9, operating costs per hour for the Victoria Regional Transit System have increased on average 3.5% per annum. During this same time period fuel,

insurance, parts, employee benefits and other budget items representing almost one-third of total operating expenditures have posted average annual increases of more than double this rate.

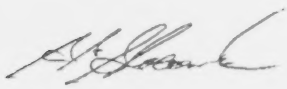
Further steps, including some internal restructuring and resource allocations have taken place and administrative costs as a percentage of total expenditures have been reduced.

Staff continue to seek cost containment opportunities and are developing new revenue sources while maintaining a commitment to provision of high quality service. The achievement of staff in delivering all core services in times of challenge has been notable. We are in a strong position, with the tools and the professional capability to meet the challenges of the years ahead.

R. H. Irwin
President and Chief Executive Officer

ACCOUNTABILITY STATEMENT

The 2003/04 BC Transit Annual Report was prepared under our direction in accordance with the Budget Transparency and Accountability Act. We are accountable for the contents of the report, including the selection of performance measures and the reported results. All significant decisions, events and identified risks, as of March 31 2004, have been considered in preparing this report.



Greg Slocombe
Board Chair

R. H. Irwin
President and
CEO

THE YEAR IN REVIEW

Emergency crews heading to the firestorm, Kamloops, Summer 2003

Once again BC Transit's Service Plan for the year under review focused on the challenge of meeting the diverse needs of customers - and the priorities of more than 50 municipal partners - within the context of tight financial resources, significant cost increases in some central budget elements and growing customer demand for service province-wide.

This section summarizes the key events and performance achievements of 2003/04.

FUNDING AND PROTECTION OF CORE SERVICES

The first goal set out in the Service Plan for 2003/04 was the development of a new sustainable funding and governance structure for transit in British Columbia. In the course of the year the provincial government assumed responsibility from BC Transit for developing this structure. This provincial review was ongoing at the fiscal year end.

In the meantime, and working within the existing funding and governance structure, BC Transit, in partnership with local municipalities, succeeded in protecting core services during 2003/04 for communities wishing to do so. This was achieved through a number of measures:

- The province provided supplementary funding of $586,000 to maintain core service levels with municipalities contributing their share under established cost sharing.
- The province also provided $1.0 million for a two-year Accelerated Maintenance Program for major overhauls to reduce vehicle life-cycle costs.
- The provincial Cabinet approved a recommendation to amend the BC Transit Act Regulation on a case-by-case basis to allow a local government partner to fund a higher share of costs if it wished to expand service, or maintain existing services. Seven transit systems took advantage of the flexible funding option in 2003/04. This flexible funding provision was coupled with efforts by BC Transit and local government partners to develop new community partnerships to support service development.
- BC Transit continued efforts to mitigate cost increases in excess of inflation in several areas - fuel, insurance, vehicle parts and employee benefits. Bulk fuel purchases on the futures market amounted to $700,000 in savings. Other strategic purchasing initiatives, such as a captive insurance program with TransLink and a competitive RFP process assisted in restraining cost increases.

As a result of these measures, the revised budget approved by the BC Transit Board totalled

Table 1

2003/04 BC Transit*
(Figures in thousands)

Budget, 2003/04-2005/06 Service Plan	**117,850**
Operational Adjustments (Fuel Increase, Admin Reductions, Service Hour Adj.)	431
Supplemental Funding	1,203
Additional local partner funding	45
Accelerated Maintenance Program	1,563
Revised (BCT Board) Budget	**121,092**

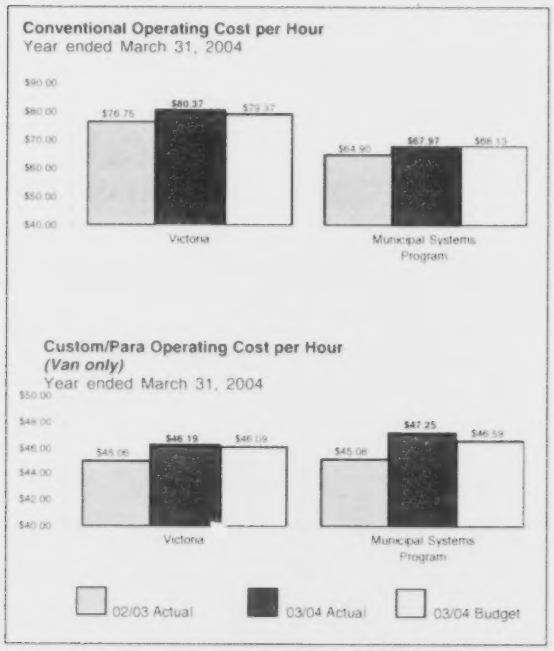
* Table show total expenditures including Provincial and Local Government contributions.

Table 2

2003/04 BC Transit
(Figures in thousands)

	BC Transit Board Budget	BC Transit Results (unaudited)
Financial		
Total Revenue	40,618	41,510
Total Expenditures	121,092	120,032
Performance		
Service Hours	1,574	1,557
Revenue Passengers	37,240	37,490

Table 3



$121.1 million for 2003/04. The additions to the original 2003/04 Service Plan budget, which resulted in the final BC Transit Board approved budget, are summarized in **Table 1**.

Expenditures for the year ended March 31, 2004 were $120 million, 1% less than budget. Expenditures, excluding a one-time fuel cell engine project, were up 3.4% compared to the prior year mainly due to increases in labour and benefit rates, debt servicing, fuel, vehicle maintenance and environmental remediation. Contractual labour increases of between 2.5-3.0% were incurred for BC Transit employees in Victoria.

Revenues, driven by increasing ridership, were 2.7% higher than the previous year. Operating revenue - primarily from passenger fares - accounted for 34.6% of costs.

In total, 1.56 million service hours were provided, 18,000 hours less than budget and 25,000 less than the number delivered the previous year. **Table 2**, summarizes these results.

Operating cost per hour in the Victoria Conventional Transit System exceeded budget by 1% as a result of fixed costs averaged over the fewer service hours delivered, and unfavourable variances in maintenance expenditures and fuel costs. (see **Table 3**)

Operating costs per hour in the Municipal Systems Conventional Transit Program were slightly below budget as a result of maintenance cost increases being lower than projected. (see **Table 3**)

On a year-over-year basis, costs per hour were 4.7% higher for both the Victoria Regional Transit System (VRTS) and Municipal Conventional Transit Systems as a result of higher expenditures in vehicle maintenance, fuel, and insurance, as well as fixed costs averaged over a lower number of delivered service hours.

Custom transit operating costs per hour increased over the previous year in both Victoria (up 2.5%) and the Municipal Systems Program (up 4.8%) as a result of higher vehicle maintenance, fuel and insurance expenses. (See **Table 3**, page 13)

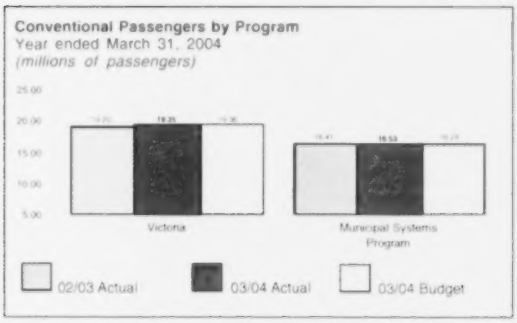
MARKET RESPONSE

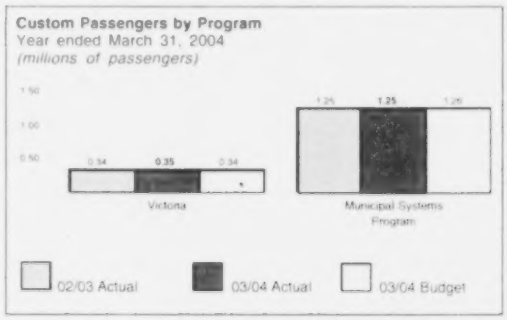
As evidenced by higher ridership, market response to transit was strong throughout the year. Student usage of transit grew significantly, as efforts to target this growing segment with new fare products, including the U-Pass and Youth Pass, reaped benefits.

In the VRTS conventional and custom systems, ridership totalled 19.7 million, on target and 169,000 greater than the previous year. The Municipal Systems Program attracted total ridership of 17.8 million, 130,000 rides greater than the previous year.

Rides per hour on the conventional and custom systems achieved or exceeded the levels of the prior year, and the target for the year. Additional detail is provided in **Table 4** below.

Table 4





PARTNERSHIPS

The development of new and innovative partnerships to assist in the delivery of service to target markets provided new sources of funding support or revenue in several locations. These partnerships link activity centres, such as recreation or businesses, to the transit system; develop market segments using new fare products or new routes; or enhance services to key activity centres. In particular, staff worked successfully in ongoing efforts with more than a dozen school districts to improve coordination of transit services and student transportation needs, and a new school service was implemented in the Comox Valley.

BC Transit continued to advocate for increased federal funding for transit through its active involvement in the Canadian Urban Transit Association (CUTA), the voice for enhancing the public transit industry in Canada. The first success from these efforts was realized in the past year with the federal government's announcement of an enhanced GST rebate for municipal services, including services contracted or operated by BC Transit. This provides an annual benefit to BC Transit, and its municipal funding partners, of approximately $ 2.1 million.

BC Transit is jointly managing and supporting the Central Okanagan's "Smart Transit Plan" with the City of Kelowna and the Regional District-of Central Okanagan. This $200,000 study is 50% funded by a grant from the Federation of Canadian Municipalities "Green Municipal Enabling Fund".

BC Transit assisted in developing the plan for spectator and volunteer transportation for events in Whistler during the 2010 Olympic and Paralympic Games. BC Transit has notified officials of the Organizing Committee for the Olympic Games that it is available to assist in the next stages of its Transportation Work Group.

TECHNOLOGY

Diesel Electric Hybrid Bus

BC Transit took a number of steps in the year to enhance efficiency, customer service and environmental quality through the exploration and application of new technologies.

With respect to transit vehicles, BC Transit researched extensively, and then road-tested hybrid diesel electric buses in Victoria and four other communities. The most successful of these tests demonstrated fuel savings of 58%. This bus also reduces emissions considerably.

In March 2004 BC Transit's Board approved the purchase of six 40-foot low floor hybrid vehicles for regular revenue service - a Canadian first. Support is being sought from federal government grant programs and other sources to support this trial.

BC Transit is also participating in other vehicle-related studies including a study of bio-mass fuels led by the City of Kelowna; on-road testing of the Ballard Power Systems/Daimler Chrysler fuel cell bus demonstration project in Europe; and an alternative fuel and technology study with the Resort Municipality of Whistler.

In the course of the year new financial management, payroll and human resource systems were implemented. In addition an innovative website information system, www.busonline.ca , started up, providing customers in all municipal transit systems in the province with easily accessible and accurate transit information

OTHER HIGHLIGHTS

BC Transit managed the completion of the Capital Regional District's (CRD) Regional Transportation Strategy, which has been submitted to the CRD Board for consideration. In the Municipal Systems Program, a transit business plan was completed for the Central Fraser Valley, and updated for the Nanaimo Region, and a major service plan was conducted under contract for Prince George.

All of BC Transit's 390 transit drivers in Victoria received training under an ambitious "Fuel Sense" program. BC Transit's Victoria operation was among the first transit system in Canada to fully implement this training, which offers the benefits of reduced fuel consumption, lower greenhouse gas emissions, smoother and safer rides for passengers, and reduced stress for individual operators.

In the Victoria Regional Transit System, the collective agreements of both the CAW Local 333 (representing bus operators and maintenance staff) and the OPEIU Local 378 (representing administration and professional staff) expired on March 31, 2004. Renewal agreements were negotiated prior to the expiry dates, with terms of two years and zero percent wage increases. The CAW Local 333 collective agreement contained a new section on community bus operations,

which provides for lower wages and more flexible working conditions to operate smaller vehicles in lower density areas. This will enable these services to be provided in-house at costs competitive with contract service providers.

With regard to services not directly operated by BC Transit, the Municipal Systems Program and the Victoria custom transit system, there were no days of service lost as a result of labour disruptions in 2003/04. Several collective agreements were reached between the operating companies and their unions with zero wage increases. BC Transit was not involved in these negotiations.

REPORT ON PERFORMANCE

U-PASS LAUNCHED IN KAMLOOPS

The following section provides detail on the results achieved during 2003/04, summarizing in tabular form, by goal, actual results for the year under review compared to performance measures and targets laid out in BC Transit's 2003-2006 Service Plan. BC Transit's website for this Service Plan is as follows:

http://www.bctransit.com/corporate/general_info/annual_reports.cfm#service_plan

This is followed by performance and financial summary tables presented by operating regions: the Victoria Regional Transit System (where the conventional service is operated directly by BC Transit), and the Municipal Systems Program (where BC Transit contracts for service delivery). This is put into historical context with tables presenting a five-year comparison of financial and operating results dating back to 1999/2000. The section concludes with a benchmarking comparison of BC Transit's performance relative to Canadian transit industry averages.

Goal 1: Establish a new and sustainable funding and governance framework

OBJECTIVE **Develop a new sustainable funding and governance framework to accommodate future cost increases and local system expansion priorities**

Strategy 1 Phase 1 - Find efficiencies, eliminate low priority service and secure funding flexibility for 2003/04

Strategy 2 Phase 2 - Gather local government input and formulate funding governance and strategy proposal to province

Performance Measures/Targets	Results
• Ability to maintain existing service levels and implement modest expansions in 2004/05 and 2005/06	• Core transit services protected in communities wishing to do so • BC Transit Act Regulation amended to allow municipal partners to fund a higher percentage of cost-shared expenditures; new community partnerships established
• Approval by provincial government of new and sustainable structure by start of 2004/05 fiscal year	• Provincial government assumed responsibility from BC Transit for funding and governance review

OBJECTIVE **Support local government partners and the provincial government in their efforts to secure an agreement for federal funding for public transit.**

Strategy Coordinate efforts with CUTA, FCM and others to garner federal funding support for transit. Full briefing to all Members of Parliament in BC

Performance Measures/Targets	Results
• Advance federal funding commitment to public transit	• Continued efforts with CUTA for increased federal funding • Federal government announced GST rebate for municipalities (BC Transit GST total savings estimated $2.1 million annually for operating and capital expenditures)

Goal 2: Maximize the efficient and cost-effective use of resources in the provision of safe, innovative and customer-oriented services to meet present and evolving market demands

OBJECTIVE **In the Victoria Regional Transit System in the first year of the Service Plan, plan and deliver service to transit's increasing ridership base within the protected level of provincial funding, and without material changes to local taxes, fares or cost-sharing**

Strategy Find efficiencies and eliminate low priority service as approved by Victoria Regional Transit Commission

Performance Measures/Targets

- Deliver approved service within protected funding and without significant additional taxes.

Results

- In VRTS service hours reduced by 2%, ridership increased by 1% within funding constraints – see Table 6

OBJECTIVE **In the Municipal Systems (2003/04) address the shortfall of $2.3 million necessary to fund existing service levels**

Strategy 1 Find efficiencies and eliminate low priority services

Strategy 2 Pursue an interim flexible funding arrangement for 2003/04 through Order-In-Council

Performance Measures/Targets

- Ability for local government to fund a higher percentage of transit costs if necessary to maintain existing service and desired modest expansions

Results

- In Municipal Systems service hours down 1.8%, ridership up 1% - see Table 7
- Flexible funding approved by Province and applied in seven systems: Cowichan Valley, Penticton, Prince Rupert, Kamloops, Kelowna Prince George and North Okanagan
- RDN Partnership Agreement implemented – piloting in Nanaimo a seven-language transit schedule with advertisements offsetting printing costs
- New community partnerships in Kamloops (U-Pass), North Okanagan, Kootenay-Boundary

Goal 2 continued

OBJECTIVE	**In the VRTS and Municipal Systems in Years 2 and 3 plan and deliver services within a new sustainable funding and governance framework**
Strategy	Develop services as prescribed in locally-approved plans
Performance Measures/Targets	Results
• Performance measures and benchmarks for 2004/05, 2005/06 specified in Service plan	• VRTS – See Table 6 for projections for 2004/05, 2005/06 • Municipal Systems – See Table 7 for 2004/05, 2005/06 projections
• Establish and implement service plan as approved by local funding partner in 2004/05 and 2005/06	• Resources in place to maintain programs for 2004/05: in 2005/06, even with supplementary funding, current forecasts show budget shortfall to maintain or expand to meet service objectives.
OBJECTIVE	**Improve workforce productivity, efficiency and effectiveness (BC Transit staff)**
Strategy	Include cost containment and workforce efficiency objectives in collective agreement negotiations
Performance Measures/Targets	Results
• Increase workforce productivity through new more flexible work practices	• More flexible working conditions and lower wage rates for community bus operations - smaller vehicles operating in lower density areas - successfully negotiated into VRTS collective agreements • CAW and OPEIU collective agreements renewed prior to expiry dates, two year terms, 0% increases • Departmental succession plans implemented; new applicant assessment tool for recruitment adopted

Goal 2 continued

OBJECTIVE	**Improve transit safety for passengers and transit workers, and reduce the costs of transit-related accidents**
Strategy 1	Reduce WCB Claims through targeted risk assessment (BC Transit staff)
Strategy 2	Emphasize safety and training in RFP processes
Strategy 3	Reduce motor-vehicle accident rates

Performance Measures/Targets	Results
• WCB claims 5% below 2002/03 experience (BC Transit staff)	• Compared to previous year WCB wage loss claims reduced by 8.7%, WCB medical aid claims reduced by 50% for BC Transit staff
• Specific criteria in RFP evaluation of safety / training program proposals	• Enhancements made to safety and training criteria for selection of transit management companies
• Preventable accidents reduced by 5% by 2005/06 (BC Transit staff)	• Achieved for BC Transit staff 24% reduction in preventable accidents compared to previous year, attributed in part to "Fuel Sense" defensive driving/fuel efficiency driver training; and to improved accident analysis information

OBJECTIVE	**Improve the acquisition and utilization of available resources**
Strategy 1	Continue to refine the RFP process to maximize benefit
Strategy 2	Review and improve business practices related to facilities and fleet

Performance Measures/Targets	Results
• Full implementation over regular 5-year RFP cycle using new market based criteria	• Improved RFP processes for six operations tendered; improved REI processes for two operations tendered
• Implementation of enhanced enterprise-wide management systems covering all primary corporate business elements by the end of 2004	• New financial management, payroll and HR systems implemented
• Maintain cost increases below the rate of inflation beyond 2003/04	• Strategic procurement for fuel (Victoria and Municipal Systems) and the shared services captive insurance company, run jointly with TransLink, saved over $1.0 million
	• New garage in Trail with low cost lease, and shared functions with School District; new garage in Whistler
	• Largest cost increase was in vehicle maintenance. Costs driven up by increasing fleet complexity and fleet age profile generated "spike" in component overhaul and reconditioning costs

Goal 3: Plan and deliver transit services that meet local land-use and growth priorities, while furthering the development of safe, healthy communities and a sustainable environment

OBJECTIVE **Identify and adopt new technologies and service delivery methods to enhance customer service, environmental quality and transit's community benefits**

Strategy 1 Next generation fuel cell engine testing (Ballard)

Strategy 2 Reduce fuel consumption with improved technology, operator training and shared purchases

Performance Measures/Targets	Results
• Fuel cell test results available by second quarter of 2004	• No future cost to BC Transit's involvement in the Daimler Chrysler/Ballard fuel cell engine testing is assured through title transfer of a fuel cell engine to Daimler Chrysler.
• Enhanced operator information / training for reduced fuel consumption	• BC Transit Board approved first-time purchase of six hybrid electric buses; federal funding for two in-service demonstrations being pursued
	• "Fuel Sense" training completed by 400 VRTS operators; average 8.5% fuel savings achieved in on-road testing
• Implement alternate service in rural and low performing markets in Victoria and other centres	• Community bus service approved and necessary collective agreement changes secured in the VRTS. Efforts to advance new transit in small town and rural areas unsuccessful, to end of 03/04 due to funding constraints

OBJECTIVE **Support the Capital Regional District's Regional Growth Strategy**

Strategy Develop 20-year regional transportation strategy for CRD's Regional Growth Strategy

Performance Measures/Targets	Results
• Finalization of regional transportation strategy report to the CRD Board by September 2003	• BC Transit managed successful completion of Capital Regional District Transportation Strategy and submitted to CRD for consideration

Goal 3 continued

OBJECTIVE	**In the Municipal Systems Program, support local and regional government community planning initiatives and municipal empowerment**
Strategy	Continue to deliver planning program to meet local government priorities

Performance Measures/Targets
- Ongoing

Results
- Major studies: Business Plans completed for Central Fraser Valley and updated for Nanaimo; Prince George Service Plan completed
- BC Transit jointly managing Central Okanagan Smart Transit Plan - $100,000 FCM Green Enabling Fund Grant funding half of study
- New fare products implemented in Kamloops (U-Pass), Campbell River (semester passes), Smithers (monthly student pass) and Port Alberni (family pass)
- Completed implementation of new website transit information system for all 69 municipal systems – www.busonline.ca

OBJECTIVE	**Receive federal funding in support of an Urban Transportation Showcase Program (UTSP) for the Victoria region.**
Strategy	Work with municipal partners and other stakeholders to prepare a formal detailed submission on a Victoria UTSP proposal

Performance Measures/Targets
- Submission deadline - May 16/03

Results
- Victoria Showcase proposal submission unsuccessful

BC TRANSIT PERFORMANCE AND FINANCIAL SUMMARY

Table 5 below presents a corporate budget and performance summary for BC Transit for the year under review compared to the actual results of the prior two years. These results are compared to the 2003/04 Service Plan budget and revised (final) 2003/04 Board budget. As well, the approved 2004/05 - 2006/07 BC Transit Service Plan's targets for the next three years are provided. Reference BC Transit's website for this Service Plan:
http://www.bctransit.com/corporate/general_info/annual_reports.cfm#service_plan
As noted earlier expenditures of $120.0 million were 1% below the revised and final Board-approved budget of $121.1 million. Expenditures were up 3.6% compared to the previous year (net of the one-time fuel cell engine initiative), primarily due to increases in labour rates, debt servicing, fuel, insurance, benefit rates, vehicle maintenance costs, and environmental remediation. Revenue of $41.5 million for the year showed an increase of $1.1 million compared to the previous year, and exceeded the Board budget target of $40.6 million by 2.2%. Operating revenue consists primarily of passenger fares, and provided 34.6% of total funding. Ridership grew by 1% over the previous year.

Table 5

PERFORMANCE & FINANCIAL SUMMARY
BC TRANSIT
(Figures in thousands, except performance ratios)

	Actuals			Service Plan	Board	2004/05 - 2006/07 Service Plan		
Year Ending :	2002	2003	**2004**	Budget 2004	Budget 2004	Budget 2005	Budget 2006	Budget 2007
Financial								
Passenger Revenue	38,060	39,106	**40,326**	39,144	39,467	42,287	42,612	41,286
Advertising Revenue	1,290	1,279	**1,184**	1,344	1,151	1,170	1,161	1,166
Total Revenue	39,350	40,385	**41,510**	40,487	40,618	43,457	43,773	42,452
Operating Costs	102,585	103,725	**106,716**	104,230	107,388	108,908	110,671	110,119
Debt Servicing	10,671	12,139	**13,316**	13,620	13,704	14,092	15,425	16,072
Total Expenditures Public Transit	113,255	115,864	**120,032**	117,850	121,092	123,000	126,096	126,191
Provincial Initiatives: Fuel Cell	1,525	3,050	-	-	-	-	-	-
Total Expenditures	114,780	118,914	**120,032**	117,850	121,092	123,000	126,096	126,191
Provincial Operating Grants*	46,360	47,508	**46,193**	44,683	46,269	45,483	45,483	45,483
Provincial Deferred Revenue**			**(735)**		(359)	520		
Municipal Share	68,420	71,406	**74,574**	73,167	75,182	76,997	80,613	80,708
FTEs	599.0	585.6	**562.2**					
Capital Expenditures	16,077	23,273	**6,790**	11,425	11,425	15,383	16,065	7,909
Performance								
Service Hours	1,568	1,581	**1,557**	1,515	1,574	1,580	1,551	1,502
Revenue Passengers	35,097	37,190	**37,490**	36,588	37,240	37,606	36,796	35,667

* Provincial Share is operating contribution only and does not include the grant from the Provincial Government for its share of debt service costs.
** Deferred revenue received in March 2004 from the Provincial Government for the 2-year Accelerated Maintenance Program completing in March 2005.

Note 1: *Debt service expenditures above include only the local government partner's share of debt service costs. The provincial share of debt service expenditures is funded directly by the Ministry of Transportation. In 2003/04, the Ministry funded approximately $9.7 million of debt service costs attributable to the Victoria Regional Transit System and the Municipal Systems Program. In addition, the Ministry funded debt service costs for the SkyTrain guideway and related assets, and West Coast Express assets, owned by BC Transit.*

When comparing the 2003/04 final results to the recently published 2004/05 - 2006/07 Service Plan targets, it should be noted that the first year of the Service Plan (2004/05) includes sufficient budget - including supplementary funding, Accelerated Maintenance Program, and flex funding - to cover the approved service levels for all existing communities participating in the BC Transit programs. For years 2 and 3 of the new Service Plan, however, there will be a shortfall for the Municipal Systems Program. In Year 3 the Victoria Regional Transit System was forecast to have a funding shortfall in the 2004-07 Service Plan. Since this plan was published, rapid escalation in energy and other price trends to June 2004 now indicate that Year 2 will also experience a funding shortfall.

This forecast reflects the significant risk associated with a number of key external cost factors such as fuel, insurance, parts pricing and employee benefits. This challenge may in part be met through flex funding by local government partners prepared to pay a higher portion of expenditures to maintain or enhance local services levels, and/or by seeking further supplementary funding from new sources. There will, however, still be a need to identify and implement further cost containment and service efficiency initiatives in order to work within anticipated resources available in the 2005/06 and 2006/07 fiscal years.

VICTORIA REGIONAL TRANSIT SYSTEM

BC Transit plans and directly operates the conventional bus system in Greater Victoria to meet service levels established by the Victoria Regional Transit Commission. The region's custom transit system is contracted to a private company, Farwest handyDART Services Inc.

Table 6 (page 28) presents performance and financial summary data for the VRTS for the year under review compared to prior years and the Service Plan projections.

Victoria Conventional Transit

Conventional transit in the Victoria region carried 19.4 million passengers in 2003/04, on target and 1.0% higher than the level achieved the previous year. Growth occurred primarily along major corridors and high demand was experienced on routes serving educational institutions. Service hours delivered totaled 559,000, some 11,000 or 1.9% fewer than budget and the prior year's actual.

Expenditures for conventional transit were $51.8 million, $891,000 below budget as a result of a lower number of delivered hours, reduced administrative expenditures, a carry-forward of funding for the Accelerated Maintenance Program (AMP) and lower debt service charges. Year-over-year expenditures were up 3% due primarily to higher priced input costs, including labour and benefit rates, fuel, vehicle maintenance and debt service.

Table 6

PERFORMANCE & FINANCIAL SUMMARY
VICTORIA REGIONAL TRANSIT SYSTEM
(Figures in thousands, except performance ratios)

	Actuals			Service Plan Budget	Board Budget	2004/05 - 2006/07 Service Plan		
Year Ending :	2002	2003	**2004**	2004	2004	Budget 2005	Budget 2006	Budget 2007
VICTORIA - CONVENTIONAL								
Financial	* 14 day strike							
Passenger Revenue	20,615	21,279	**21,633**	21,530	21,651	23,452	24,436	22,876
Advertising Revenue	888	880	**855**	1,023	856	856	856	856
Total Revenue	21,503	22,159	**22,488**	22,553	22,507	24,308	25,292	23,732
Operating Costs	43,387	43,720	**44,887**	44,861	45,397	46,176	48,366	47,742
Debt Servicing	5,618	6,376	**6,863**	7,480	7,245	7,433	8,556	8,972
Total Expenditures	49,005	50,096	**51,750**	52,341	52,642	53,609	56,922	56,714
Performance								
Service Hours	568	570	**559**	570	572	569	597	565
Revenue Passengers	17,937	19,197	**19,350**	19,650	19,362	19,589	19,919	18,954
Revenue Passengers per Service Hour	31.6	33.7	**34.6**	34.5	33.8	34.4	33.4	33.5
Total Cost Recovery	43.9%	44.2%	**43.5%**	43.1%	42.8%	45.3%	44.4%	41.8%
Operating Cost per Service Hour	$76.32	$76.75	**$80.37**	$78.70	$79.37	$81.15	$81.02	$84.50
Operating Cost per Revenue Passenger	$2.42	$2.28	**$2.32**	$2.28	$2.34	$2.36	$2.43	$2.52
VICTORIA - CUSTOM								
Financial								
Passengers Revenue	350	326	**322**	382	354	319	322	322
Advertising Revenue	-	-	-	-	-	-	-	-
Total Revenue	350	326	**322**	382	354	319	322	322
Operating Costs	4,478	4,629	**4,945**	4,848	4,819	5,008	5,580	5,719
Debt Servicing	206	225	**257**	332	280	279	264	298
Total Expenditures	4,684	4,854	**5,202**	5,180	5,099	5,287	5,844	6,017
Performance								
Service Hours	100	98	**101**	102	99	106	108	108
Revenue Passengers	331	337	**353**	365	338	375	383	385
handyDART Passengers	274	275	**285**	276	280	297	302	302
handyDART Passengers per Service Hour	2.7	2.8	**2.8**	2.7	2.8	2.8	2.8	2.8
Total Cost Recovery (Van only)	7.8%	7.1%	**6.6%**	7.7%	7.3%	6.4%	5.8%	5.6%
Operating Cost per Service Hour (Van only)	$42.44	$45.06	**$46.19**	$45.13	$46.09	$44.66	$49.08	$50.37
Operating Cost per Revenue Passenger	$13.52	$13.73	**$14.02**	$13.28	$14.26	$13.35	$14.57	$14.85

The system achieved a farebox cost recovery level of 43.5%, above budget but below the level of the previous year. This was the result of higher input costs as indicated above. In addition, the continuing shift to discounted prepaid fares reduced the average fare and cost recovery. Combined fare and advertising revenues were $ 22.5 million.

Productivity, measured as passengers per service hour, exceeded the budget by 1%, reflecting ridership increasing at a faster rate than service hours. The operating cost per passenger was 1% lower than budget, and 1% above the previous year.

The operating cost per hour was $80.37 per hour, 1% greater than budget. This was primarily a result of higher maintenance expenditures and fixed costs averaged over fewer service hours.

Victoria Regional Custom Transit

The Victoria Regional handyDART service carried a total of 285,000 passengers, and provided a further 68,000 rides by taxi, for a total of 353,000 custom transit passengers. This was above the previous year, and 4% above target. The growth in handyDART ridership is attributed largely to demographic factors associated with a large seniors population and the increased demand for accessibility. Revenue was down due to fare integration with conventional transit fares.

Hours of service were 2% above budget, while custom transit expenditures were $5.2 million or 3% above budget.

The number of passengers carried per service hour was above the prior year and 4% above budget. The operating cost per passenger was favourable to budget by 1% as a result of increased use of taxi services.

MUNICIPAL SYSTEMS PROGRAM

In response to funding challenges, there were service reductions in many of the Municipal Systems Program transit operations during 2003/04. Overall, there was a 2% decrease in conventional service hours and a slight 0.2% decrease in custom/paratransit service hours. Service increased in a small number of communities, which used flexible funding to pay 100% locally for expanded transit service. **Table 7** presents performance and financial summary data for the Municipal Systems Program compared to prior years and the Service Plan projections.

The original Service Plan for 2003/04 had called for a level of 603,000 conventional service hours. With the benefit of supplementary funding and cost-containment measures, the actual number of hours delivered totalled 662,000.

Table 7

PERFORMANCE & FINANCIAL SUMMARY
MUNICIPAL SYSTEMS PROGRAM
(Figures in thousands, except performance ratios)

	Actuals			Service Plan	Board	2004/05 - 2006/07 Service Plan		
Year Ending :	2002	2003	2004	Budget 2004	Budget 2004	Budget 2005	Budget 2006	Budget 2007
MUNICIPAL SYSTEMS PROGRAM - CONVENTIONAL								
Financial	15 week strike Prince George							
Passengers Revenue	15,377	15,796	**16,521**	15,353	15,635	16,639	15,927	16,109
Advertising Revenue	388	381	**314**	310	284	302	293	297
Total Revenue	15,765	16,177	**16,836**	15,663	15,919	16,941	16,220	16,407
Operating Costs	43,070	43,766	**44,969**	42,496	45,141	45,794	44,321	44,045
Debt Servicing	4,217	4,804	**5,417**	5,070	5,392	5,612	5,678	5,749
Total Expenditures	47,287	48,570	**50,386**	47,566	50,533	51,406	49,998	49,794
Performance								
Service Hours	664	674	**662**	603	663	664	605	588
Revenue Passengers	15,567	16,409	**16,534**	15,265	16,282	16,346	15,190	15,016
Revenue Passengers per Service Hour	23.4	24.3	**25.0**	25.3	24.6	24.6	25.1	25.5
Total Cost Recovery	33.3%	33.3%	**33.4%**	32.9%	31.5%	33.0%	32.4%	32.9%
Operating Cost per Service Hour	$64.87	$64.90	**$67.97**	$70.47	$68.13	$68.93	$73.21	$74.89
Operating Cost per Revenue Passenger	$2.77	$2.67	**$2.72**	$2.78	$2.77	$2.80	$2.92	$2.93
MUNICIPAL SYSTEMS PROGRAM - CUSTOM/PARA								
Financial								
Passengers Revenue	1,718	1,705	**1,850**	1,879	1,827	1,877	1,927	1,979
Advertising Revenue	14	19	**14**	11	11	12	12	13
Total Revenue	1,732	1,724	**1,864**	1,890	1,838	1,889	1,940	1,992
Operating Costs	11,649	11,610	**11,915**	12,025	12,031	11,930	12,404	12,614
Debt Servicing	629	734	**779**	738	787	768	928	1,053
Total Expenditures	12,279	12,344	**12,694**	12,763	12,818	12,697	13,332	13,666
Performance								
Service Hours	236	239	**235**	240	240	241	241	241
Revenue Passengers	1,262	1,247	**1,253**	1,307	1,258	1,296	1,304	1,313
Van Passengers	1,082	1,084	**1,098**	1,112	1,100	1,138	1,146	1,155
Van Passengers per Service Hour	4.6	4.5	**4.7**	4.6	4.6	4.7	4.8	4.8
Total Cost Recovery (Van only)	15.2%	15.0%	**15.7%**	16.0%	15.4%	16.0%	15.6%	15.6%
Operating Cost per Service Hour (Van only)	$45.65	$45.08	**$47.25**	$46.28	$46.59	$45.94	$47.92	$48.78
Operating Cost per Revenue Passenger	$9.23	$9.31	**$9.51**	$9.20	$9.56	$9.21	$9.51	$9.61

Municipal Systems Conventional

The Municipal Systems Program conventional transit services carried 16.5 million passengers, exceeding budget by 1.5%, and up 0.8% compared to the previous year. Ridership decreased in some communities, including the Central Fraser Valley, the Kelowna Region, the Nanaimo Region, and Whistler, primarily as a result of lower service levels. This was offset by increased ridership in those communities with new or re-allocated service targeted at key market groups, such as post-secondary students in Kamloops and Prince George, and secondary school markets in a number of communities.

Expenditures for conventional transit were $50.4 million, 0.3% below budget. This was up 3.7% from 2002/03, primarily due to higher maintenance and fuel costs. Fare and advertising revenues were $16.8 million, above budget by 6% and also up 4% compared to the year prior. Cost recovery was 33.4%, above the budget amount of 31.5% due to increased ridership. Productivity of 25.0 passengers per service hour exceeded the budget target of 24.6, reflecting continuing growth in ridership. As a result the operating cost per passenger was favourable to budget by 1.8%.

The average operating cost per hour was $67.29, favourable to budget but up 3.7% from the previous year due primarily to fuel and maintenance costs.

Municipal Systems Custom and Paratransit

The Municipal Systems custom/paratransit services carried 1.25 million passengers in 2003/04, below budget by 0.4% but up 0.5% from the previous year. All the growth was in van passengers, with taxi passengers showing a slight decline from the prior year.

Service hours delivered were 2% below budget and marginally below last year's actual. Custom and paratransit expenditures were $12.7 million or 1% below budget. Revenue from the program was $1.9 million, above the budget by 1.4%. Cost recovery was above budget as a result of lower costs and higher revenue.

Van passengers carried per service hour (4.7) was above budget and continues to represent one of the highest productivity rates for this kind of service in Canada. The van operating cost per hour was $47.25, which was below budget. The operating cost per van passenger was marginally below budget.

BC TRANSIT FIVE-YEAR HISTORICAL COMPARISON OF KEY FINANCIAL AND OPERATING RESULTS

Table 8 below presents key financial and operating results for BC Transit on a corporate basis for the past five fiscal years.

Table 8

KEY FINANCIAL & OPERATING RESULTS
BC TRANSIT
(Figures in thousands, except performance ratios)

	2004	2003	2002	2001	2000
VICTORIA & MUNICIPAL SYSTEMS PROGRAM COMBINED					
Financial					
Passenger Revenue	**40,326**	39,106	38,059	36,011	33,546
Advertising Revenue	**1,184**	1,279	1,289	1,299	1,034
Total Revenue	**41,510**	40,385	39,349	37,310	34,580
Operating Costs	**106,716**	103,725	102,585	99,203	94,106
Debt Servicing	**13,316**	12,139	10,671	8,998	8,348
Total Expenditures Public Transit	**120,032**	115,864	113,255	108,201	102,454
Provincial Initiatives: Fuel Cell	-	3,050	1,525		
Total Expenditures	**120,032**	118,914	114,780	108,201	102,454
Performance					
Service Hours	**1,557**	1,581	1,568	1,559	1,524
Revenue Passengers	**37,490**	37,190	35,097	34,657	32,448
Revenue Passengers per Service Hour	**24.1**	23.5	22.4	22.2	21.3
Total Cost Recovery	**34.6%**	34.9%	34.7%	34.5%	33.8%
Operating Cost per Service Hour	**$68.54**	$65.62	$65.42	$63.64	$61.76
Operating Cost per Revenue Passenger	**$2.85**	$2.79	$2.92	$2.86	$2.90

Over this period, total ridership has grown by more than 5 million rides annually (+16%), even as service hours increased by only 2%. Cost per ride has declined over this five year period and cost recovery from the farebox has improved slightly.

Victoria Regional Transit System

Table 9 below presents the VRTS' key financial and operating results for the past five fiscal years.

Table 9

KEY FINANCIAL & OPERATING RESULTS
VICTORIA REGIONAL TRANSIT SYSTEM
(Figures in thousands, except performance ratios)

Year ended :	**2004**	2003	2002*	2001	2000
Victoria - Conventional					
Financial					
Passenger Revenue	**21,633**	21,279	20,615	20,179	19,613
Advertising Revenue	**855**	880	888	835	662
Total Revenue	**22,488**	22,159	21,503	21,014	20,274
Operating Costs	**44,887**	43,720	43,387	43,415	42,014
Debt Servicing	**6,863**	6,376	5,618	4,558	4,295
Total	**51,750**	50,096	49,005	47,973	46,309
Performance					
Service Hours	**559**	570	568	603	598
Revenue Passengers	**19,350**	19,197	17,937	18,738	17,667
Revenue Passengers per Service Hour	**34.6**	33.7	31.6	31.1	29.5
Total Cost Recovery	**43.5%**	44.2%	43.9%	43.8%	43.8%
Operating Cost per Service Hour	**$80.37**	$76.75	$76.32	$71.97	$70.25
Operating Cost per Revenue Passenger	**$2.32**	$2.28	$2.42	$2.32	$2.38
Victoria - Custom					
Financial					
Passenger Revenue	**322**	326	350	391	363
Advertising Revenue	**-**	-	-	-	-
Total Revenue	**322**	326	350	391	363
Operating Costs	**4,945**	4,629	4,478	4,147	3,677
Debt Servicing	**257**	225	206	148	136
Total	**5,202**	4,854	4,684	4,295	3,813
Performance					
Service Hours	**101**	98	100	94	85
Revenue Passengers	**353**	337	331	295	260
handyDART Passengers	**285**	275	274	246	224
handyDART Passengers per Service Hour	**2.8**	2.8	2.7	2.6	2.6
Total Cost Recovery (handyDART)	**6.6%**	7.1%	7.8%	9.4%	9.8%
Operating Cost per Service Hour (handyDART)	**$46.19**	$45.06	$42.44	$42.71	$41.70
Operating Cost per Revenue Passenger	**$14.02**	$13.73	$13.52*	$14.06	$14.13

* **Note:** Results reflect a 14-day labour disruption in April 2001.

Municipal Systems Program

Table 10 below presents the Municipal Systems Program's key financial and operating results for the past five fiscal years.

Table 10

KEY FINANCIAL & OPERATING RESULTS
MUNICIPAL SYSTEMS PROGRAM
(Figures in thousands, except performance ratios)

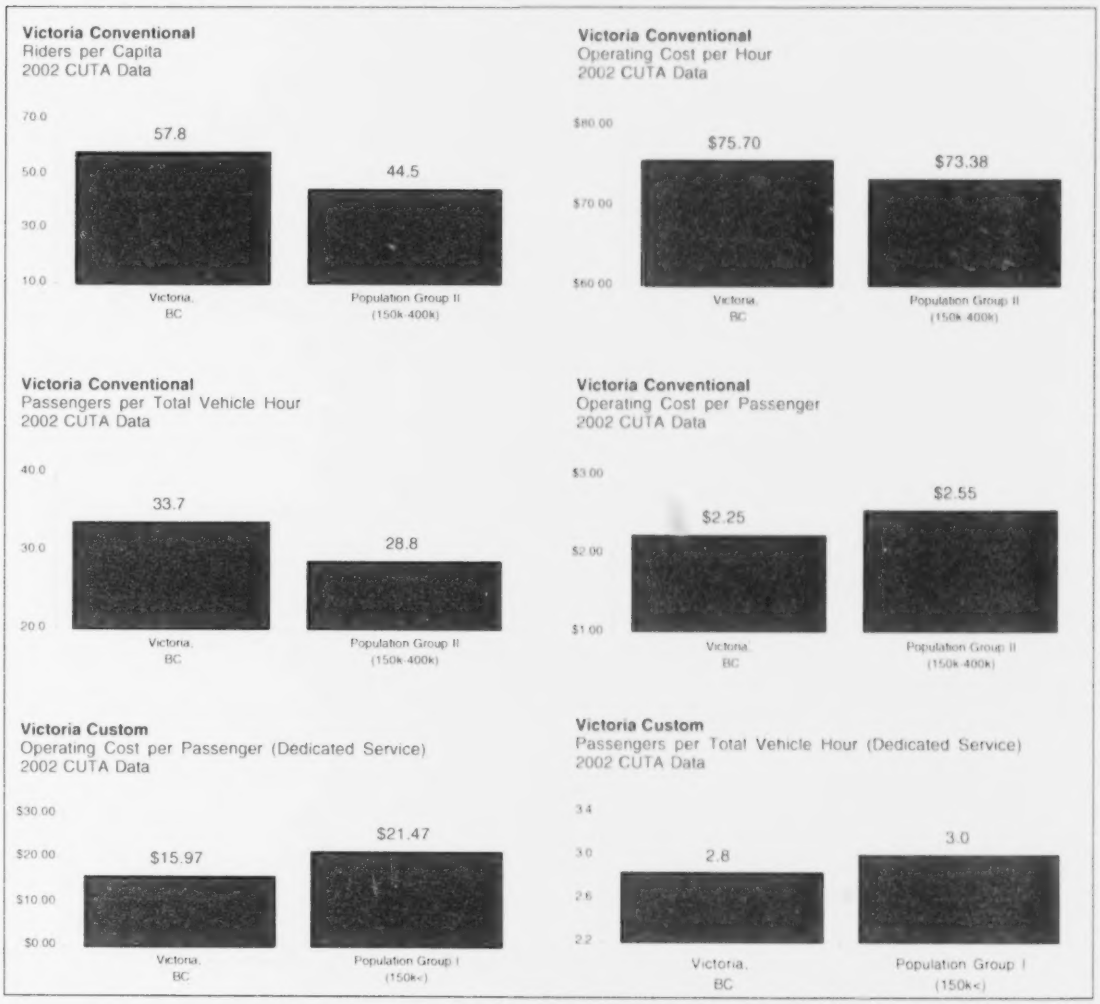
	2004	2003	2002*	2001	2000
Municipal Systems Program - Conventional					
Financial					
Passenger Revenue	**16,521**	15,796	15,377	13,903	12,155
Advertising Revenue	**314**	381	388	450	358
Total Revenue	**16,836**	16,177	15,765	14,353	12,512
Operating Costs	**44,969**	43,766	43,070	40,810	38,377
Debt Servicing	**5,417**	4,804	4,217	3,804	3,420
Total	**50,386**	48,570	47,287	44,614	41,797
Performance					
Service Hours	**662**	674	664	639	625
Revenue Passengers	**16,534**	16,409	15,567	14,492	13,509
Revenue Passengers per Service Hour	**25.0**	24.3	23.4	22.7	21.6
Total Cost Recovery	**33.4%**	33.3%	33.3%	32.2%	29.9%
Operating Cost per Service Hour	**$67.97**	$64.90	$64.87	$63.91	$61.38
Operating Cost per Revenue Passenger	**$2.72**	$2.67	$2.77	$2.82	$2.84
Municipal Systems Program - Custom/Para					
Financial					
Passenger Revenue	**1,850**	1,705	1,718	1,539	1,416
Advertising Revenue	**14**	19	14	14	15
Total Revenue	**1,864**	1,724	1,732	1,553	1,430
Operating Costs	**11,915**	11,610	11,649	10,832	10,038
Debt Servicing**	**779**	734	629	487	497
Total	**12,694**	12,344	12,279	11,319	10,535
Performance					
Service Hours	**235**	239	236	223	216
Revenue Passengers	**1,253**	1,247	1,262	1,132	1,012
Van Passengers	**1,098**	1,084	1,082	993	902
Van Passengers per Service Hour	**4.7**	4.5	4.6	4.5	4.2
Total Cost Recovery (Van only)	**15.7%**	15.0%	15.2%	14.7%	14.4%
Operating Cost per Service Hour (Van only)	**$47.25**	$45.08	$45.65	$45.08	$43.75
Operating Cost per Revenue Passenger	**$9.51**	$9.31	$9.23	$9.57	$9.92

* **Note:** Results reflect a 15 week labour disruption in Prince George in the fall of 2001.

Comparison to Industry Benchmarks

A recent review of the performance of the Victoria Regional Transit System and Municipal Systems Conventional Program provided the following summary of comparative results based on figures supplied by the Canadian Urban Transit Association (CUTA). These are summarized in **Table 11** below and **Table 12** on the following page. The results are for the year 2002/03, the most recent year available. The systems selected are those deemed to be most comparable based on system size, community profile and ridership. Victoria is compared with the CUTA Population Group 2 (150,000 - 400,000).

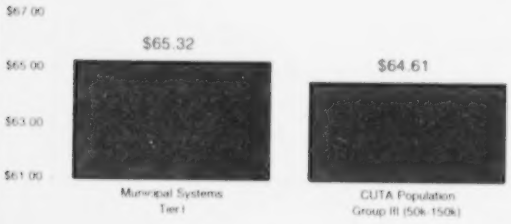
Table 11



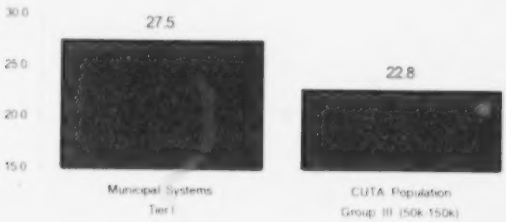
In the case of the Municipal Systems Program, Tier 1 conventional transit systems (those with service area populations over 50,000) are compared with the average for comparable CUTA systems (Population Group 3 - 50 to 150,000).

Table 12

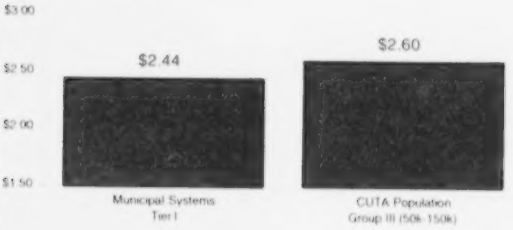
Municipal Systems Program Conventional
Operating Cost Per Hour
2002 CUTA Data



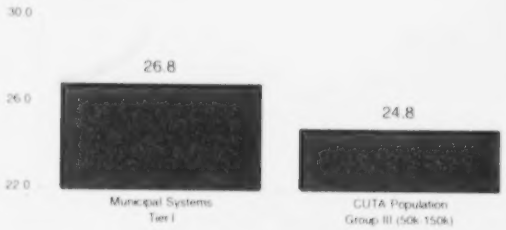
Municipal Systems Program Conventional
Rides per Capita
2002 CUTA Data



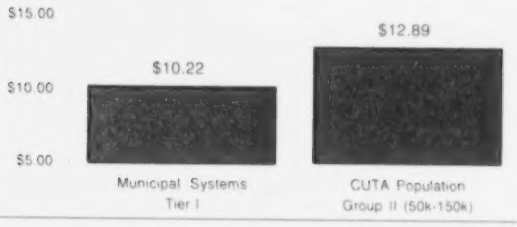
Municipal Systems Program Conventional
Operating Cost Per Passenger
2002 CUTA Data



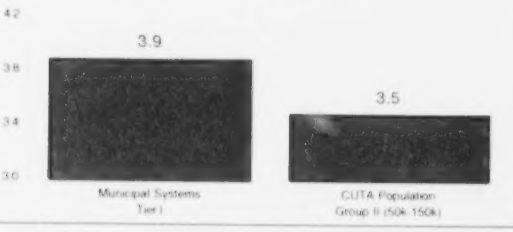
Municipal Systems Program Conventional
Passengers per Hour
2002 CUTA Data



Municipal Systems Program Custom
Operating Cost Per Passenger (Dedicated Service)
2002 CUTA Data



Municipal Systems Program Custom
Passengers per Hour (Dedicated Service)
2002 CUTA Data



FINANCIAL **REPORT**

FINANCIAL REPORT

MANAGEMENT DISCUSSION AND ANALYSIS - REVIEW OF THE TWO YEARS ENDED MARCH 31, 2004

The prior two years have been characterized by continued cost increases in the transportation industry. Fuel, insurance, vehicle parts and employee benefits again grew at rates greater than general inflation.

BC Transit took a number of measures to mitigate these increases. BC Transit's shared service program in insurance - as well as fuel futures trading - insulated the company from much of the cost increases experienced elsewhere in the industry. The Corporation worked cooperatively with contract operators to minimize cost increases. Furthermore, BC Transit continued to eliminate less efficient service.

Despite these measures, there were unanticipated variances, primarily in maintenance costs. The maintenance budget for 2003/04 had been developed based on continuation of mechanical performance of the New Flyer Industries low floor bus component of the conventional fleet. It became apparent during the second quarter of the year that these vehicles were experiencing unanticipated failures, requiring major component repairs scheduled originally for the 2004/05 or 2005/06 year. Many of these repairs were advanced up to one fiscal year to avoid more costly repairs on the original schedule.

Funding pressures were addressed by two measures. BC Transit worked with the Ministry of Transportation to secure supplemental provincial funding to maintain core service levels - and to address the maintenance cost increase with a one-time supplement. In addition, the implementation of "flexible funding" arrangements has enabled local partners to increase the local funding in excess of historic cost-sharing percentages in order to maintain core service levels and, in some cases, expand service.

TWO YEAR OUTLOOK TO MARCH 31, 2006

As in the two years just past, there is a high potential for significant cost increases in the next two years.

Currently, fuel futures (May 2004) are trading at 4% in excess of current contract rates for the 2005/06 year. This represents a $1.4 million exposure to the Corporation.

While insurance rates have stabilized in 2004/05, there is no assurance this will continue through 2005/06. Insurance markets, in particular for excess liability coverage, are highly volatile. Insurers are excluding more risks and participating at lower percentages in the underwriting market.

Parts costs remain a concern as they are largely influenced by the volatility of the Canadian dollar. In addition, as the fleet becomes more complex, parts costs increase accordingly. BC Transit's British bus manufacturer and parts supplier was recently placed in receivership. This is a significant concern with respect to parts supply and existing warranty claims. Alternate supply sources are being investigated. As noted previously, mid-life overhaul costs have generated cost increases and this is anticipated to continue through 2005/06.

BC Transit has significantly reduced its capital expenditures. However, some of the benefit of reduced capital spending could be mitigated by rising interest costs.

The outlook for the labour cost component is mixed. While BC Transit has had significant success in containing operation costs increases in contracted operations, there is no assurance that this situation will remain since it is largely influenced by local economic and labour market conditions. Already, labour costs in certain regions of BC are increasing, reflecting a buoyant market. A widespread economic recovery in BC could result in increased contract costs as labour markets become more competitive and business opportunities for contract operators expand.

In Victoria, labour rates are frozen through March 31, 2006. This will be a major cost containment benefit as salaries, wages and benefits account for two-thirds of operating costs in Victoria.

Further, the introduction of Community Bus will increase the cost-effectiveness of service.

In the absence of additional supplementary funding or new revenue sources, conventional service hours will begin to decline in 2005/06 with commensurate reductions in ridership in response to lower service levels.

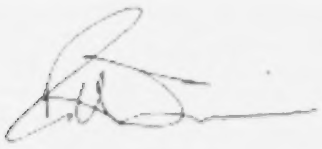
On a final positive note, the enhanced municipal GST rebate will be a significant benefit to BC Transit, resulting in an immediate operating costs saving of $2.1 million annually.

REPORT OF MANAGEMENT
Years ended March 31, 2004 and 2003

The financial statements of British Columbia Transit ("BC Transit") have been prepared by management in accordance with Canadian generally accepted accounting principles. A precise determination of many assets and liabilities is dependent upon future events and, consequently, the preparation of periodic financial statements necessarily involves the use of management's judgment in establishing the estimates and approximations used. The financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the financial statements.

BC Transit's system of internal controls is designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, financial information is reliable and ethics codes are observed. Inherent to the concept of reasonable assurance is the recognition that there are limits in all internal control systems and that system costs should not exceed the expected benefits. The system includes the selection, training and development of qualified personnel, organizational division of responsibilities, appropriate delegation of authority and formal written company policies and procedures including the conflict of interest policy of all BC Transit officers and employees. The Board of Directors meets regularly with management and the external auditors to satisfy itself that the company's systems of internal control is adequate.

Management is responsible for all of the information in this Annual Report. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.



R.H. Irwin
President and Chief Executive Officer

Tony Sharp, CA
Vice President, Finance and Chief Financial Officer

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AUDITORS' REPORT

To the Members of the Board of Directors of
British Columbia Transit

We have audited the balance sheets of British Columbia Transit as at March 31, 2004 and 2003 and the statements of operations and accumulated surplus, cash flows, contributed surplus and changes in Victoria Regional Transit Fund for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

May 21, 2004

BRITISH COLUMBIA TRANSIT

Balance Sheets
March 31, 2004 and 2003 ($000)

	2004	2003
Assets		
Current assets:		
Cash and cash equivalents (note 3)	$ 8,445	$ 5,775
Accounts receivable:		
Municipalities	6,384	4,461
Trade and other	3,131	2,639
Parts inventory	3,959	4,012
Prepaid expenditures	1,180	874
	23,099	17,761
Debt sinking funds (note 4)	15,997	13,046
Capital assets (note 5)	173,613	177,717
Capital assets under lease (note 6)	944,902	962,773
Investment in Transportation Property and Casualty Company Inc.	20	20
	$ 1,157,631	$ 1,171,317
Liabilities		
Current liabilities:		
Accounts payable to Province of British Columbia	$ 126	$ 124
Accounts payable and accrued liabilities	16,335	12,838
Notes payable (note 7)	3,487	-
Current portion of long-term debt	-	4,274
Current portion of obligations under capital leases	13	12
	19,961	17,248
Long-term debt (note 8)	95,204	95,196
Obligations under capital leases (note 9)	232	247
Deferred contributions (note 10)	9,032	6,929
Deferred capital contributions:		
Capital assets	75,772	76,318
Capital assets under lease	876,684	891,874
	1,076,885	1,087,812
Equity		
Contributed surplus	79,761	82,520
Accumulated surplus	985	985
	80,746	83,505
Commitments and contingent liability (note 12)		
	$ 1,157,631	$ 1,171,317

See accompanying notes to financial statements.
Approved on behalf of the Board:

_____ Director

_____ Director

BRITISH COLUMBIA TRANSIT

Statements of Operations and Accumulated Surplus

Years ended March 31, 2004 and 2003 ($000)

	2004	2003
Revenue:		
Operations	$ 41,510	$ 40,385
Investment and other income	1,123	806
	42,633	41,191
Expenditures:		
Operations and maintenance	96,749	94,116
Administration	7,997	7,930
Interest on long-term debt	6,327	5,931
Amortization of capital assets	10,118	8,671
Vehicle/property leases and taxes	1,748	1,720
Amortization of contributed assets	114	110
Test fuel cell engine	-	3,050
	123,053	121,528
Recoveries:		
Contributions from the Province of British Columbia	45,532	44,458
Provincial Initiative – test fuel cell engine	-	3,050
Contributions from municipalities (note 10)	30,647	29,148
Amortization of deferred capital contributions - capital assets	4,146	3,571
	80,325	80,227
Expenditures from transit operations	(95)	(110)
Other:		
Amortization of capital assets under lease	(15,189)	(14,425)
Amortization of deferred capital contributions - capital assets under lease	15,189	14,425
Write-down of non-shareable asset costs	-	(13)
Loss on disposal of capital assets	(19)	(10)
	(19)	(23)
Net expenditures for the year	(114)	(133)
Accumulated surplus, beginning of year	985	1,008
Transfer from contributed surplus	114	110
Accumulated surplus, end of year	$ 985	$ 985

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statements of Cash Flows

Years ended March 31, 2004 and 2003 ($000)

	2004	2003
Cash provided by (used for):		
Operations:		
Net expenditures for the year	$ (114)	$ (133)
Items not involving cash:		
Amortization of capital assets	10,118	8,671
Amortization of contributed capital assets	62	57
Amortization of capital assets under lease	15,189	14,425
Amortization of deferred capital contributions	(19,335)	(17,997)
Loss on disposal of capital assets	19	10
Net change in non-cash operating working capital	831	(2,560)
	6,770	2,473
Investing:		
Deposit on capital projects	-	8,631
Proceeds from sale of capital assets	2,765	175
Additions to capital assets	(6,179)	(32,595)
	(3,414)	(23,789)
Financing:		
Repayment to the Province of British Columbia of proceeds on disposal of contributed land	(2,645)	(155)
Increase in deferred contributions	2,103	1,873
Capital lease payments	(14)	(11)
Increase (decrease) in notes payable	3,487	(11,987)
Increase (decrease) in long-term debt	(4,266)	19,824
Increase in debt sinking funds	(2,951)	(111)
Deferred capital contributions received	3,600	12,170
	(686)	21,603
Increase in cash and cash equivalents	2,670	287
Cash and cash equivalents, beginning of year	5,775	5,488
Cash and cash equivalents, end of year	$ 8,445	$ 5,775

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statements of Contributed Surplus

Years ended March 31, 2004 and 2003 ($000)

	2004	2003
Balance, beginning of year	$ 82,520	$ 82,785
Amount transferred to accumulated surplus to offset:		
Amortization charged on contributed assets	(62)	(58)
Operational costs - contributed inventory	(52)	(52)
Reduction of contributed surplus for repayment of contributed land sales proceeds	(2,645)	(155)
Balance, end of year	$ 79,761	$ 82,520

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statements of Changes in Victoria Regional Transit Fund

Years ended March 31, 2004 and 2003 ($000)

	2004	2003
Fund balance, beginning of year	$ 1,947	$ 1,810
Revenue:		
Fuel tax	7,735	7,744
Property tax	8,072	7,999
Interest earned	74	84
	15,881	15,827
	17,828	17,637
Contributions	(16,797)	(15,690)
Fund balance, end of year	$ 1,031	$ 1,947
Fund balance represented by:		
Cash and cash equivalents – held in trust	$ 1,031	$ 1,947

See accompanying notes to financial statements.

1. **Purpose:**

British Columbia Transit ("BC Transit") was established under the British Columbia Transit Act, as amended in 1998, to operate the urban transit systems in the Province of British Columbia outside of the Greater Vancouver Regional service area. In 2004, BC Transit recovered 47.01% (2003 – 46.02%) of its expenditures from the Province of British Columbia with the balance from transit operations and municipalities.

BC Transit, on behalf of the Victoria Regional Transit Commission, is responsible for the administration of all funds raised by certain tax levies. The financial position and changes during the year in the funds are set out in the statement of changes in Victoria Regional Transit Fund.

2. **Summary of significant accounting policies:**

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are set out hereunder:

(a) Parts inventory:

Parts inventory is valued at the lower of cost on a first-in first-out basis, and replacement cost. Inventories are recorded net of any obsolescence provisions.

(b) Debt sinking funds:

Debt sinking funds, consisting of pooled investment portfolios and Canada, provincial government and Crown corporation bonds, are recorded at the lower of amortized cost or market, with any premium or discount on purchase being amortized over the term to maturity of each investment.

(c) Capital assets:

(i) All capital assets, except those noted in (ii), (iii) and (iv), are recorded at cost, including capitalized interest as described in note 2(e).

(ii) Capital assets transferred from the Province of British Columbia are recorded at their appraised value. These appraisals were carried out at various dates between June 30, 1979 and August 18, 1987.

(iii) Capital assets acquired from BC Hydro are recorded at their appraised value. These appraisals were carried out at various dates between March 1, 1980 and April 1, 1982.

(iv) Amortization is provided on the basis that results in a matching of these charges with BC Transit's statutory power to recover the cost of the related assets. Contributed assets are not subject to recovery and are amortized over their estimated useful lives. All assets are amortized by the sinking fund method over a period not exceeding their estimated remaining useful lives. Land is not subject to amortization. The assessment of net recoverable amounts is determined by applying the applicable deferred capital contributions to capital costs.

2. Summary of significant accounting policies (continued):

(d) Investment in Transportation Property and Casualty Company Inc.:

BC Transit's 10% interest in Transportation Property and Casualty Company Inc. is recorded on the cost basis of accounting.

(e) Capitalization of interest:

Interest incurred in connection with capital acquisitions from the date of advance of funds until the assets are placed in service for transit purposes is capitalized. In 2004, interest of $102 was capitalized (2003 - $96.5).

(f) Amortization of bond premiums and discounts:

Bond premiums and discounts are amortized on a straight-line basis over the term of the debt.

(g) Amortization of contributed surplus:

Contributed surplus (appraisal increase credits) is being amortized and reflected in net revenue at an amount equal to the amortization charged on those assets for which BC Transit does not have statutory power to obtain full recovery from operations.

(h) Deferred capital contributions:

Deferred capital contributions include the unamortized portions of capital asset contributions. Contributions for capital projects are provided by prepaid capital advances from the Province. These prepaid capital advances are recorded by BC Transit as deferred capital contributions and are recognized in the statement of operations and accumulated surplus on the same basis as the related assets are amortized. This matches the amortization of the deferred capital contributions with the expenditures incurred through amortization of the capital assets acquired with the funds.

(i) Employee future benefits:

BC Transit and its employees contribute to the Public Service Pension Plan, a jointly trusted pension plan. Joint trusteeship was established effective January 1, 2001. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the plan. The pension plan is a multi-employer contributory defined benefit pension plan with over 58,000 active plan members and approximately 27,000 retired plan members.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation was at March 31, 2002, and disclosed a $546 million surplus for funding purposes ($929 million as at the previous valuation). The actuary does not attribute portions of the surplus to individual employers. Contributions to the plan in 2004 by BC Transit totaled approximately $1,965 (2003 - $1,905).

2. Summary of significant accounting policies (continued):

(j) Financial instruments:

BC Transit is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to interest rates and cash flow risk) and forward foreign exchange contracts (used to manage foreign currency exposures on foreign currency debt). These instruments are not recognized in the financial statements on inception. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt. Gains and losses on forward foreign exchange contracts are recognized in revenues in the same period as the foreign currency revenues to which they relate.

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reported periods. Significant areas requiring the use of management estimates include the determination of amortization periods and certain accrued liabilities. Actual results could differ from the estimates. Adjustments, if any, are reflected in operations in the period of settlement.

(l) Comparative figures:

Certain 2003 comparative figures have been reclassified to conform with the financial statement presentation for the current year.

3. Cash and cash equivalents:

BC Transit considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

(a) Major components of cash and cash equivalents are as follows:

	2004	2003
Cash	$ 3,153	$ 2,674
Short-term investments	5,292	3,101
	$ 8,445	$ 5,775

3. Cash and cash equivalents (continued):

(b) Supplemental cash flow information:

	2004	2003
Cash paid during the year for:		
Interest on long-term debt and notes payable	$ 6,329	$ 5,817
Cash received:		
Interest on investments	922	737

4. Debt sinking funds:

Investments held in the sinking funds, including interest earned, are to be used to repay the related debt at maturity.

Sinking funds and related investments are managed by the British Columbia Investment Management Corporation ("BCIMC"). Investment management fees totaling $2.9 (2003 - $5.9) were paid directly from individual portfolios to BCIMC.

5. Capital assets:

March 31, 2004	Carrying value	Accumulated depreciation and amortization	Net book value
Land	$ 6,088	$ -	$ 6,088
Land improvements	1,962	925	1,037
Buildings	23,365	6,238	17,127
Revenue vehicles	191,027	52,841	138,186
Revenue vehicles under capital leases	294	49	245
Equipment	14,924	5,336	9,588
Capital projects in progress	1,342	-	1,342
	$ 239,002	$ 65,389	$ 173,613

5. Capital assets (continued):

March 31, 2003	Carrying value	Accumulated depreciation and amortization	Net book value
Land	$ 6,088	$ -	$ 6,088
Land improvements	1,782	829	953
Buildings	23,107	5,389	17,718
Revenue vehicles	190,770	46,664	144,106
Revenue vehicles under capital leases	294	36	258
Equipment	10,054	4,344	5,710
Capital projects in progress	2,884	-	2,884
	$ 234,979	$ 57,262	$ 177,717

6. Capital assets under lease:

These capital assets under lease consist of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express. These assets are made available to the Greater Vancouver Transportation Authority ("GVTA") for their use pursuant to an Order in Council and operating lease, and represents one of the Province's contributions toward public transportation in the Greater Vancouver Regional District.

The operating lease arrangements with GVTA are for one dollar per year under an initial fifteen-year term commencing April 1, 1999, with additional five-year renewal periods upon the agreement of BC Transit and the GVTA. Cost information of these assets is as follows:

March 31, 2004	Carrying value	Accumulated amortization	Net book value
SkyTrain	$ 1,208,302	$ 375,893	$ 832,409
West Coast Express	128,847	16,354	112,493
	$ 1,337,149	$ 392,247	$ 944,902

6. Capital assets under lease (continued):

March 31, 2003	Carrying value	Accumulated amortization	Net book value
SkyTrain	$ 1,211,102	$ 363,457	$ 847,490
West Coast Express	128,848	13,563	115,283
	$ 1,339,950	$ 377,020	$ 962,773

7. Notes payable:

	2004	2003
Commercial paper with the Province of British Columbia, 2004 – 1.82% weighted average interest rate	$ 3,487	$ -

8. Long-term debt:

	2004	2003
Sinking fund bonds, weighted average interest rate of 6.45%, maturing at various dates from 2006 to 2022, amortized from 4 to 20 years	$ 81,466	$ 81,466
Sinking fund bonds under interest rate and currency conversion agreements, effective weighted average interest rate of 6.1%, maturing at various dates from 2006 to 2010, amortized from 3 to 11 years	13,727	18,000
	95,193	99,466
Add: unamortized bond premium	119	134
Less: unamortized bond discount	(108)	(130)
	95,204	99,470
Less current portion	-	4,274
	$ 95,204	$ 95,196

The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. BC Transit paid fees totaling $290 (2003 - $47) in the year for these fiscal agent services.

8. Long-term debt (continued):

Long-term debt payments in each of the next five years are as follows:

2005	$	-
2006		2,745
2007		5,206
2008		10,200
2009		-
Thereafter		77,053

9. Obligations under capital leases:

BC Transit leases equipment under leases which are classified as capital leases. The future minimum annual lease payments are as follows:

2005	$	34
2006		34
2007		34
2008		34
2009		34
Thereafter		200
		370
Less amount representing interest at 8.36%		125
Present value of capital lease obligations		245
Less current portion		13
	$	232

Interest incurred during the year with respect to obligations under capital leases included in other interest expenditures amounted to $21 (2003 - $22).

10. Deferred contributions:

Debt service contributions to fund sinking fund and interest payments are recovered from municipal partners over the estimated service life of the related assets. These contributions may differ from the annual amortization of the related assets. Such differences are deferred to be recognized as a recovery in future periods.

	2004	2003
Balance, beginning of year	$ 6,929	$ 5,056
Contributions from municipalities - Victoria	16,797	15,690
Contributions from municipalities - other municipalities	15,953	15,331
Contributions from municipalities expended	(30,647)	(29,148)
Balance, end of year	$ 9,032	$ 6,929

11. Financial instruments:

(a) Fair value:

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The estimated fair value of obligations under capital leases approximates their carrying value as they bear interest at rates approximating current market rates. The fair values of other financial assets and liabilities included in the balance sheets are as follows:

March 31, 2004	Carrying amount	Fair value
Debt sinking funds	$ 15,997	$ 17,376
Long-term debt (including related foreign exchange contracts and interest rate swaps)	95,204	106,304

March 31, 2003	Carrying amount	Fair value
Debt sinking funds	$ 13,046	$ 13,611
Long-term debt (including related foreign exchange contracts and interest rate swaps)	95,196	100,715

11. Financial instruments (continued):

(a) Fair value (continued):

In evaluating the fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts for financial instruments. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

(b) Concentration of credit risk:

Financial instruments that potentially subject BC Transit to significant concentrations of credit risk consist primarily of cash equivalents and trade accounts receivable. To reduce credit risk, cash equivalents are only held at major financial institutions and management performs ongoing credit evaluations of its customers' financial condition. BC Transit maintains reserves for potential credit losses.

12. Commitments and contingent liability:

(a) Operating lease payments:

BC Transit is committed to make future minimum payments under operating leases for the next five years as follows:

2005	$ 1,006
2006	1,061
2007	1,079
2008	1,082
2009	1,082

These expenditures will be recovered from provincial and municipal sources pursuant to cost-sharing agreements.

12. Commitments and contingent liability (continued):

(b) Contingent liability:

BC Transit is party to an agency agreement with Rapid Transit Project 2000 Ltd. ("RTP 2000") for purposes of the expropriation of land under the Expropriation Act. A number of previous owners of expropriated land have challenged the expropriated value. Any differences between the amounts paid and subsequently reassessed will be recorded by RTP 2000 in the period of assessment.

Management is of the opinion that the indemnity provisions of the agency agreement will wholly indemnify BC Transit for any costs incurred as a result of these claims and potential claims. No provision has been made in the financial statements related to this matter.

(c) Fuel management:

BC Transit manages its exposure to fuel price volatility by entering into purchase commitments with Petro Canada. These arrangements are used solely for the purpose of reducing fuel price risk and not for generating trading profits. Gains and losses resulting from the contracts are recognized as a component of fuel expense. Existing contracts require BC Transit to purchase minimum fuel volumes at an approximate annual commitment of $9.0 million to March 31, 2005.

CORPORATE GOVERNANCE
MANDATE OF BOARD OF DIRECTORS

As provided in Sections 3 and 4 of the BC Transit Act, the directors of the Authority must supervise the management of the affairs of the Authority and establish a plan of organization to carry out the powers and duties of the Authority. The primary purposes and objects of the Authority are:

(a) to plan, acquire, construct or cause to be constructed public passenger transportation systems and rail transit systems that support regional growth strategies, official community plans and the economic development of the transit service areas,

(b) to provide for the maintenance and operation of those systems, and

(c) with the approval of the minister, to pursue commercial opportunities and undertake or enter into commercial ventures in respect of those systems and the authority's assets and resources.

The BC Transit Board of Directors meets either as a Committee of the Whole or as full Board in regular session. There are no Standing Committees.

MEMBERS OF THE BC TRANSIT BOARD OF DIRECTORS

Mr. Gregory Slocombe (Chair)
City of Prince Rupert

Mayor Colin Kinsley
City of Prince George

Mayor Chris Causton
District of Oak Bay

Mayor Don Amos
Town of Sidney

Mayor Walter Gray
City of Kelowna

Mr. Bob De Clark
Nanaimo Region

Mr. Dave Fisher
City of Kamloops

Names/Titles - BC Transit Senior Management

Mr. Bob Irwin
President & CEO

Mr. Tony Sharp
Vice President, Finance & CFO

Mr. Ron Harmer
Vice President, Fleet and Facilities

Mr. Ron Drolet
Vice President,
Customer Service &
Corporate Secretary

Ms. Susanne Fossey
Vice President,
Human Resources

Mr. Steve New
Vice President, Municipal
Systems Program

GLOSSARY

Accessible Buses – Accessible buses are able to accommodate riders who have wheelchairs or scooters. Accessible bus stops are clearly marked with the international wheelchair symbol, and routes that are fully accessible are indicated in the Rider's Guides.

American Passenger Transportation Association – APTA is the professional association for urban transit providers in the United States and the leading force in advancing public transportation.

Annual Operating Agreement – A three-party agreement between BC Transit, the municipality, and the operating company which allows for the delivery of the local transit service and defines total costs and the responsibility of each party.

British Columbia Transit – A Crown corporation created by the Provincial Legislature under the terms of the British Columbia Transit Act to ensure a consistent and comprehensive transit policy throughout the province.

British Columbia Transit Act – This Act established BC Transit with a Board of Directors and designated the Board responsible for participating with local government in the establishment of transit policy as well as coordination of the planning and funding of the various municipal transit systems in the province.

British Columbia Transit Board of Directors – A seven-member Board of Directors, appointed by the province, governs BC Transit. The BC Transit Act requires that four of the Board members be municipally elected representatives.

Canadian Urban Transit Association – CUTA is the association for providers of urban transit services and the voice of the public transit industry in Canada.

Capital Costs – The sum of money paid for facilities and equipment (including taxes and interest charges) with a service life exceeding one year.

Conventional Transit – Transit service using regularly scheduled, fixed-route service, that is operating according to published route maps and timetables.

Cost Per Revenue Passenger – A key efficiency measure widely used and reported by transit agencies.

Cost Recovery – A measure of financial performance expressed in terms of total revenue over total expenses.

Cost-Sharing Agreement – An agreement between BC Transit and the municipality for the provision of transit service or the development of a transit study.

Custom Transit – Custom door-to-door service for those passengers who cannot use conventional transit due to a disability. Also known as handyDART, which stands for handy Dial-a-Ride-Transit. Vehicles are vans or mini-buses that can accommodate wheelchairs and scooters. Riders must be registered with the handyDART office before they can use the service.

Double Deck Buses – BC Transit's Trident double deck buses were custom designed by Dennis Specialist Vehicles of Surrey, England. They are 12 metres (40 feet) long, 2.5 metres (eight feet) wide, and 4.3 metres (14 feet) tall and can seat 84 people. Compared to a single deck, 12-metre bus, the Trident double deck provides a 120 per cent increase in carrying capacity at a capital cost that is only 40 per cent higher. The Trident is low floor and fully accessible for wheelchairs and scooters.

Effectiveness – Effectiveness is a measure of the ability of the transit system to carry out the required services.

Efficiency – Efficiency is a measure of the ability of a transit system to provide a service within a minimum of expense or resource input.

Darts – Compact, mid-size buses that are ideal for smaller communities or neighbourhood routes as they are less noisy, more maneuvrable, and more economical. The Darts, also known as Dennis Darts, come in two lengths – 10.6 m (35 feet) and 9.1 m (30 feet). All the Darts are low floor for easy boarding and accessible to wheelchairs and scooters.

Feasibility Study – Normally a two-phase study consisting of a Transit Concept Plan and a Transit Service Plan. The study is performed by BC Transit under the terms of a Cost Sharing Agreement between BC Transit and the municipality.

handyDART – Custom door-to-door service for those passengers who cannot use conventional transit due to a disability. Riders must be registered with the handyDART office before they can use the service. Also known as custom transit, handyDART stands for handy Dial-a-Ride-Transit. Vehicles are vans or mini-buses that can accommodate wheelchairs and scooters.

Low-Floor Buses – Are designed so the entire floor is close to the pavement with no entry steps for easy boarding. For passengers who use walkers, crutches or who have difficulty stepping up, they have a kneeling feature that lowers the entry level even further. All low-floor buses have a ramp for wheelchair and scooter access.

Media Trading – Providing space in one advertising medium in exchange for access to another, instead of purchasing advertisements. For a transit system this means providing free access to advertising space in and on buses in exchange for use of radio spots or newspaper ad space. This provides opportunity to continue to inform customers with reduced marketing expenditure and limited or no loss of revenue.

Mode – A form of travel, e.g., transit, pedestrian, bicycle, automobile, or mixed mode such as bicycle and transit.

Municipal Systems Program – BC Transit is responsible for 52 municipal transit systems throughout British Columbia under the Municipal Systems Program. BC Transit is also responsible for the Victoria Regional Transit System which is separate from the Municipal Systems Program.

Municipal Transit System – A transit system operating or being studied in a community, excluding Vancouver or Victoria.

Municipality – For the purpose of agreements under the British Columbia Transit Act, municipalities are defined as cities, townships, villages, or regional districts, or a combination of these, involved in the operation, funding or feasibility assessment of a transit system.

Operating Company – The company selected by BC Transit and the municipality to operate the transit system under the terms of the Transit Service Agreement and the Annual Operating Agreement.

Operating Cost per Service Hour – An important efficiency measure for a transit system.

Operating Expenses – The sum of all costs associated with the operation and maintenance of the transit system during a specified period, usually excluding depreciation and interest paid on loans for capital outlays.

Paratransit – Bus or van service in towns and rural areas where the population density does not warrant conventional bus service. More flexible than conventional fixed route transit, paratransit typically offers both custom door-to-door and fixed route service, with a flexible timetable to accommodate route deviation.

Peak Period (or Hours) – That period of time during a typical weekday in which the maximum amount of travel occurs. Usually a morning and evening peak are observed as a result of work and school related trips. The opposite of peak period is base or off peak period.

Contact Information:

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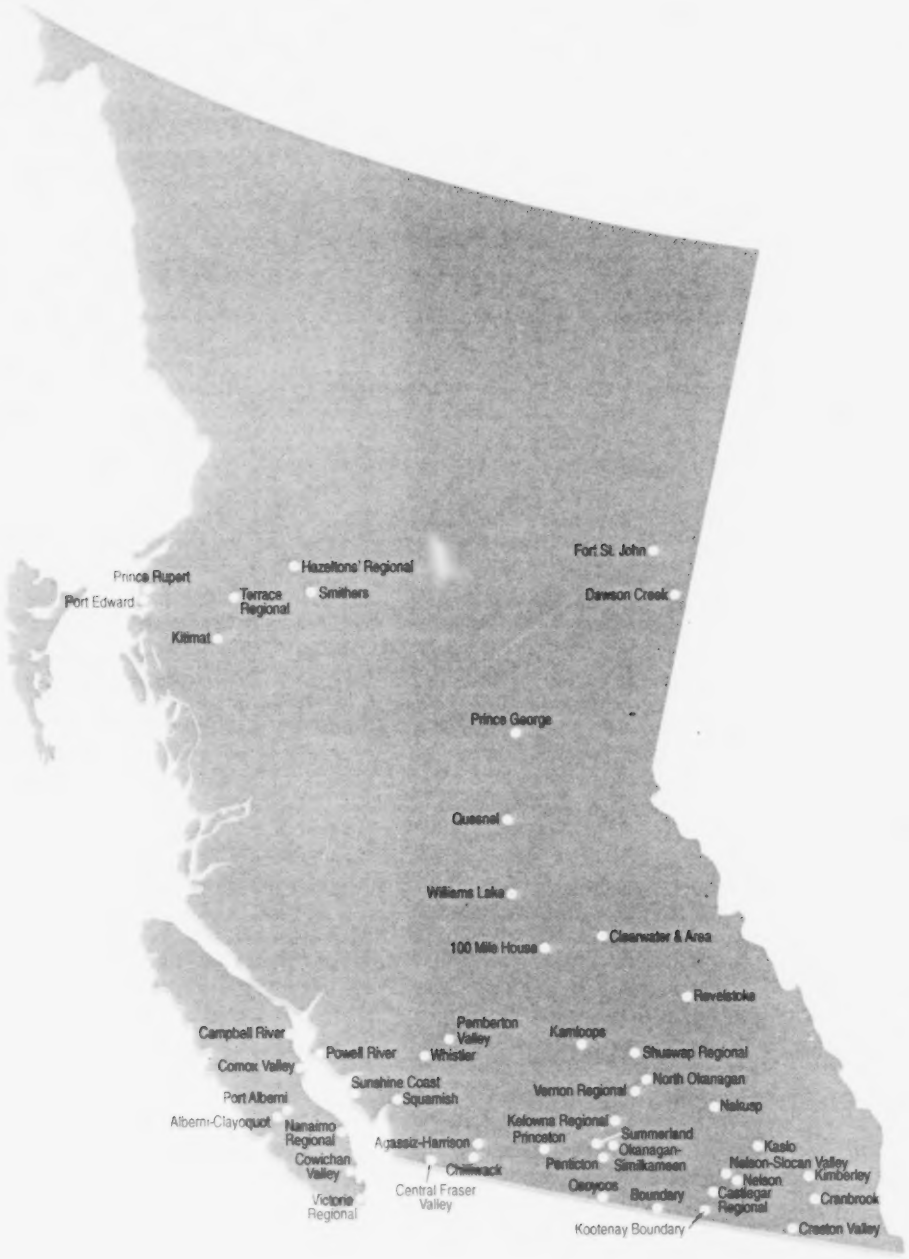
This Annual Report is available on the BC Transit website.

MAP OF BC TRANSIT SYSTEMS



Conventional Transit Systems (25)

Campbell River
Central Fraser Valley
Chilliwack
Comox Valley
Cowichan Valley
Cranbrook
Dawson Creek
Fort St John
Kamloops
Kelowna Regional
Kitimat
Kootenay Boundary
Nanaimo Regional
Nelson
Penticton
Port Alberni
Powell River
Prince George
Prince Rupert
Squamish
Sunshine Coast
Terrace Regional
Vernon Regional
Victoria Regional
Whistler

Paratransit Systems (31)

Agassiz-Harrison
Boundary
Castlegar Regional
Clearwater & Area
Comox Valley
Cowichan Valley
Creston Valley
Fort St. John
Hazeltons' Regional
Kaslo
Kimberley
Nakusp
Nelson & Area
Nelson-Slocan Valley
North Okanagan
Okanagan-Similkameen
100 Mile House & Area
Osoyoos
Pemberton Valley
Port Edward
Powell River
Princeton & Area
Quesnel & Area
Revelstoke
Shuswap Regional
Smithers & Area
Squamish
Summerland
Sunshine Coast
Terrace Regional
Williams Lake

Custom Transit Systems (14)

Alberni-Clayquot
Campbell River
Central Fraser Valley
Chilliwack
Cranbrook
Kamloops
Kelowna Regional
Kitimat
Kootenay Boundary
Nanaimo Regional
Penticton
Prince George
Prince Rupert
Vernon Regional
Victoria Regional

Fleet Profile:	Diesel	Propane	Gasoline	CNG	
Victoria - conventional	197				**197**
Municipal Systems - conventional	306		1		**307**
Victoria - Custom	32	9			**41**
Municipal Systems - Custom Para	117	21	13	1	**152**
	Total: **652**	**30**	**14**	**1**	**697**

Conventional Transit Systems (25)

Paratransit Systems (31)

Custom Transit Systems (14)

Fleet Profile:	Diesel	Propane	Gasoline	CNG	
Victoria - conventional	[illegible]				197
Municipal Systems - conventional	[illegible]				307
Victoria - Custom	37	3			41
Municipal Systems - Custom Para	[illegible]	27	13	1	152
	Total: 652	30	14	1	697

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